



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

February 9, 1999

### **S. 364**

### **Small Business Investment Improvement Act of 1999**

*As ordered reported by the Senate Committee on Small Business on February 5, 1999*

#### **SUMMARY**

S. 364 would make a number of technical corrections to the Small Business Investment Act of 1958. It would eliminate a provision in current law that reserves funds for smaller Small Business Investment Companies (SBICs) until the last quarter of the fiscal year. The bill also would allow a more accurate determination of eligibility of small businesses for SBIC programs by requiring the Small Business Administration (SBA) to measure a firm's revenues assuming that it has paid all required income taxes. (Certain corporate structures, such as "S" corporations, pass all income through to the stockholders. Other firms do not pass through income, but instead pay taxes at the corporate level). Finally, S. 364 would give SBA more flexibility in issuing certificates that help finance SBIC activities by increasing the minimum placement period for public offerings from 6 months to 12 months.

The bill would increase the authorized level of loans guaranteed by the SBIC participating securities program in 1999 and 2000. CBO estimates that the subsidy costs of loan guarantees would increase by about \$20 million over the 1999-2004 period.

S. 364 would not affect direct spending or receipts; therefore, pay-as-you-go procedures do not apply. S. 364 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

For purposes of this estimate, CBO assumes that the bill will be enacted by March 31, 1999. CBO further assumes appropriation of the amounts necessary to fund the authorized program levels, including a supplemental appropriation for increases of authorized guarantees amounts in fiscal year 1999. The estimated budgetary impact of S. 364 is shown in the

following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
<b>Changes in Spending Subject to Appropriations</b>						
SBIC Participating Securities Loans <sup>a</sup>						
Estimated authorization level	9	11	0	0	0	0
Estimated outlays	3	13	3	b	0	0
<p>a. Implementing S. 364 also would increase SBA's costs for administering guarantees of SBIC securities, but CBO estimates that the changes in administrative expenses would be less than \$500,000 a year.</p> <p>b. Less than \$500,000.</p>						

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present-value basis and excluding administrative costs.

S. 364 would increase the authorized level of loans guaranteed by the SBIC participating securities program from \$800 million to \$1.2 billion in 1999 and from \$900 million to \$1.5 billion in 2000. Based on information from the SBA and on historical data for this program, CBO estimates that the subsidy costs of loan guarantees would increase by \$20 million over the 1999-2004 period. CBO estimates that this provision would not significantly increase the administrative costs of the agency.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 364 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

## **PREVIOUS CBO ESTIMATE**

On January 13, 1999, CBO transmitted an estimate of H.R. 68, the Small Business Investment Company Technical Corrections Act of 1999, a similar bill that was ordered reported by the House Committee on Small Business on January 7, 1999. H.R. 68 would increase the authorized level of loans guaranteed by the SBIC participating securities program from \$800 million to \$1 billion in 1999 and from \$900 million to \$1.2 billion in 2000. The higher costs estimated for S. 364 reflect the higher loan levels that it would authorize: \$1.2 billion in 1999 and \$1.5 billion in 2000.

**ESTIMATE PREPARED BY:** Mark Hadley

**ESTIMATE APPROVED BY:**

Paul N. Van de Water  
Assistant Director for Budget Analysis